

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03 NSAE-00

NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05 EB-07

CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01 COME-00 AGR-05

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R 291545Z DEC 75

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 0000

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY LONDON

USMISSION USNATO

USMISSION USUN

DIA WASHDC

USCINCEUR

AMEMBASSY PARIS

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AMEMBASSY BONN

USMISSION EC BRUSSELS

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E. O. 11652: N/A

TAGS/ PFOR CY TU

SUBJECT: "TFSC" ECONOMY: FLOUNDERING BUT AFLOAT

REF NICOSIA 1642 (DTG 161330Z MAY 75)

1. SUMMARY AND CONCLUSIONS: THE ECONOMY OF TURKISH-  
CONTROLLED CYPRUS HAS BEEN PLAGUED BY INFLATION, POLITICAL  
UNCERTAINTY, POST-WAR POPULATION SHIFTS, AND INADEQUATE  
ECONOMIC LEADERSHIP. THERE IS PERSISTENT CRITICISM IN THE  
PRESS AND WITHIN THE TURKISH COMMUNITY OF RISING PRICES,  
SHORTAGES, PRICE-GOUGING AND ECONOMIC BUNGLING. BLACK  
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MARKET ACTIVITIES FLOURISH; UNEMPLOYMENT, UNDEREMPLOYMENT,

AND A TOP-HEAVY BUREAUCRACY AGGRAVATE A SUPPLY-DEMAND IMBALANCE; AND FOREIGN EXCHANGE AND REVENUE SHORT-FALLS REMAIN SERIOUS PROBLEMS. AGRICULTURE AND TOURISM ARE BEGINNING TO SHOW SOME MODEST SIGNS OF PICKING UP BUT INDUSTRY IS GENERALLY STAGNANT AND LIKELY TO REMAIN SO DURING 1976. DESPITE ALL, OUR IMPRESSION IS THAT MOST TURK CYPRIOTS -- INCLUDING THE DENKTASH ADMINISTRATION'S HARDEST CRITICS -- RECOGNIZE THAT POST-WAR ECONOMIC DIFFICULTIES WERE LARGELY INEVITABLE; BELIEVE THEIR PROBLEMS ARE MANAGEABLE, GIVEN TIME AND PROPER LEADERSHIP; AND VOICE FAITH IN THEIR COMMUNITY'S ECONOMIC FUTURE. END SUMMARY.

2. INFLATION: NEW DEMANDS HAVE BEEN PLACED ON AN ALREADY STRAINED SUPPLY SYSTEM BY THE INFLUX OF MAINLAND TURKISH TROOPS, REFUGEES FROM THE SOUTH, AND TURKISH IMMIGRANTS. COMMON ITEMS SUCH AS POTATOES AND TOMATOES HAVE DOUBLED AND TRIPLED IN PRICE IN ONE YEAR AND AN INFORMAL EMBASSY MARKET BASKET SURVEY OF 20 KEY FOOD ITEMS IN THE NORTH INDICATES AN AVERAGE PRICE RISE IN EXCESS OF 80 PERCENT IN JUST OVER A YEAR. SHOE, CLOTHING, AND OTHER NON-FOOD PRICES HAVE ALSO CLIMBED ANYWHERE BETWEEN 25 PERCENT AND 75 PERCENT.

3. TURK CYPRIOT OFFICIALS ARE ACUTELY AWARE OF GRUMBLING OVER THE ECONOMY (AND OF ITS POTENTIAL POLITICAL RAMIFICATIONS) AND HAVE TRIED TO COUNTER PROFITEERING AND INFLATION, WHICH THEY SET AT 23-25 PERCENT, BY IMPOSING PRICE CONTROLS AND REMOVING CUSTOMS DUTIES ON FOOD IMPORTS FROM TURKEY. THIS POLICY HAS HAD MIXED RESULTS, HOWEVER, AS PRICES HAVE TENDED TO BE SET ON A PIECE-MEAL BASIS WITHOUT ADEQUATE PLANNING OR REGARD FOR PRICE AND SUPPLY STRUCTURES. PARTLY AS A RESULT, PRODUCTION INCENTIVES HAVE BEEN REDUCED; CHICKEN HAS DISAPPEARED FROM THE MARKET; PERIODIC AND SOMETIMES PROLONGED SHORTAGES OF MILK, BUTTER, BREAD, FLOUR, AND COFFEE HAVE OCCURRED; AND BLACK MARKETING IN EVERYTHING FROM BREAD TO CIGARETTES HAS FLOURISHED. REMOVING OR REDUCING CUSTOMS DUTIES -- WHICH ARE TFSC'S MAJOR REVENUE SOURCE APART FROM \$30-35 MILLION GOT SUBSIDY -- HAS ALSO HAD EFFECT OF LIMITED OFFICIAL USE

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AGGRAVATING TFSC'S CHRONIC REVENUE PROBLEM AT A TIME WHEN IT HAS HAD TO BORROW FROM PRIVATE MAINLAND BANKS TO MEET ITS PAYROLL.

4. MEANINGFUL STATISTICS ON THE ECONOMY ARE GENERALLY UNAVAILABLE, INCOMPLETE, OR CLOSELY HELD. WITH THIS CAVEAT, DEVELOPMENTS IN THE MAJOR ECONOMIC SECTORS APPEAR TO US AS FOLLOWS:

A. AGRICULTURE: AGRICULTURE APPEARS TO BE PICKING UP SLOWLY AND IS LIKELY TO CONTINUE TO IMPROVE AS REFUGEE PRODUCERS BECOME ESTABLISHED, ADJUST TO NEW CROPS AND NEW TECHNIQUES, AND BEGIN TO RESPOND TO SHORTAGES WHICH HAVE PUSHED FOOD PRICES UP TO DRASTICALLY. ACCORDING TO TURK CYPRIOT OFFICIALS, 1975 PRODUCTION OF CITRUS -- THE "TFSC'S MAJOR EXPORT -- IS EXPECTED TO REACH 100,000 TONS, OF WHICH 80,000 TONS ARE TO BE EXPORTED TO WESTERN EUROPE. THIS IS BELOW PRE-WAR 150,000 TON PRODUCTION FIGURE FOR NORTH BUT A CONSIDERABLE IMPROVEMENT OVER THE 30,000 TONS EXPORTED IN 1974. 1975 POTATO EXPORTS TOTALLED 1200 TONS AND OFFICIALS SAY A MAJOR EFFORT IS UNDERWAY TO INCREASE POTATO PRODUCTION AREA SEVEN-FOLD AND PUSH 1976 POTATO EXPORTS UP TO 10-15,000 TONS. "TFSC" HAS ALSO BEGUN TO ENCOURAGE HOT-HOUSE VEGETABLE PRODUCTION THROUGH EXTENSION OF EASY CREDIT FACILITIES. LESS LAND IS UNDER GRAIN PRODUCTION THAN LAST YEAR, BUT OFFICIALS CLAIM THAT TOTAL GRAIN PRODUCTION WILL BE ABOUT THE SAME (32,000 TONS OF WHEAT AND 35,000 TONS OF BARLEY) AND THAT ONLY SEED GRAIN WILL HAVE TO BE IMPORTED.

B. INDUSTRY: INDUSTRIAL PRODUCTION AND REACTIVATION OF GREEK ENTERPRISES IN THE NORTH HAVE BEEN HAMPERED BY BUSINESS AND MANAGEMENT INEXPERIENCE, PRIVATE SECTOR RELUCTANCE TO SINK CAPITAL INTO GREEK ENTERPRISES WHOSE ULTIMATE DISPOSITION REMAINS UNCLEAR, AND A COMBINATION OF GOVERNMENT INACTION AND AD HOC DECISION-MAKING. SOME WELL-ESTABLISHED TURK CYPRIOT FIRMS -- SUCH AS SOFT DRINKS AND FLOUR PROCESSORS -- HAVE EXPANDED PRODUCTION AND PROFITED HANDSOMELY FROM SHORTAGES AND THE ELIMINATION OF GREEK COMPETITION. LIMITED OFFICIAL USE

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THE NORTH'S MAIN INDUSTRIAL UNIT, HOWEVER -- THE TFSC-OWNED AND -CONTROLLED INDUSTRIAL HOLDING COMPANY (IHC) WHICH IS RESPONSIBLE FOR REACTIVATING FORMER GREEK ENTERPRISES-- HAS HAD LITTLE SUCCESS TO DATE AS FAR AS WE CAN DETERMINE. IHC OFFICIALS CLAIM THAT NEARLY 40 OUT OF 120 GREEK PLANTS HAVE BEEN REACTIVATED BUT HAVE BEEN CAUTIOUS ABOUT PROVIDING EVEN A LIST OF INSTALLATIONS IN OPERATION, LET ALONE PRODUCTION FIGURES. THUS, SUSPICIONS ABOUND THAT SOME REACTIVATED FACTORIES HAVE HAD TO BE CLOSED AND THAT MANY OF THOSE OPERATING ARE SMALL, ECONOMICALLY INSIGNIFICANT, OR OPERATING FAR BELOW CAPACITY.

C. TOURISM: TOURISM SECTOR STILL SUFFERS FROM SHORTAGE OF TRAINED PERSONNEL, POLITICAL UNCERTAINTY, AND LOW OCCUPANCY RATES. HOWEVER, OFFICIALS ARE HEARTENED BY

FACT THAT TOURIST ARRIVALS AND INCOME FOR 1975 HAVE FAR  
EXCEEDED EARLY ESTIMATES. ACCORDING TO THESE OFFICIALS,  
MORE THAN 60,000 TOURISTS -- 95 PERCENT OF THEM MAINLAND TURKS --  
ARRIVED IN THE FIRST 10 MONTHS OF 1975, GENERATING IN  
FIRST EIGHT MONTHS ALONG TURKISH LIRA 277 MILLION (ABOUT  
\$20 MILLION). OCCUPANCY RATE OF THE 3,000 BEDS IN SERVICE (22  
PERCENT OF FORMER CAPACITY IN THE TURKISH CONTROLLED AREA)  
WAS 43 PERCENT. OFFICIALS ARE NOW LINING UP CHARTER FLIGHTS  
AND EUROPEAN TOUR GROUPS AND PREDICTING 30 PERCENT INCREASE  
IN 1976 TOURIST ARRIVALS.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, INFLATION, EMPLOYMENT, ECONOMIC REPORTS, BLACK MARKETS, PRICES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 29 DEC 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** MorefiRH  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975NICOSI03551  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750449-0106  
**From:** NICOSIA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t1975128/aaaaagmx.tel  
**Line Count:** 180  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 NICOSIA 1642  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** MorefiRH  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 23 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <23 APR 2003 by MartinML>; APPROVED <10 JUL 2003 by MorefiRH>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** "TFSC" ECONOMY: FLOUNDERING BUT AFLOAT  
**TAGS:** PFOR, CY, TU  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006